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TAGS: ECON EFIN ECIN AFSP GR

SUBJECT: THE GREEK ECONOMY: AN AUTUMN APPRAISAL

REF: A. ATHENS A-180; B. ATHENS 6183; C. ATHENS 4305;

D. ATHENS 5780; E. ATHENS A-78; F. ATHENS 002

SUMMARY: AS THE FOURTH QUARTER OF CY 1975 BEGINS, THE CONDITION OF THE GREEK ECONOMY IS SOMEWHAT BETTER THAN ANYONE WOULD HAVE HAD REASON TO FORECAST LAST JANUARY. THE GOVERNMENT'S MILDLY REFLATIONARY FISCAL AND MONETARY POLICY IS SUCCEEDING IN GENERATING A MODEST UPSWING IN PRODUCTION WHICH, TOGETHER WITH A GOOD HARVEST, SEEMS TO ENSURE A TWO TO THREE PERCENT REAL GROWTH IN GNP FOR 1975. INFLATION, ALTHOUGH STILL A PROBLEM, APPEARS UNDER CONTROL, AND THE WHOLESALE PRICE INDEX SIGNALS PROBABLY FURTHER RELIEF FOR CONSUMERS.

WHILE THE BALANCE OF PAYMENTS IS DEVELOPING A LITTLE LESS UNFAVORABLY THAN THE GOG HAD ANTICIPATED, IT HAS NOW REPLACED STAGNATION AS GREECE'S MOST SERIOUS ECONOMIC PROBLEM: THE 1975 TRADE DEFICIT IS EXPECTED TO REACH A RECORD

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LEVEL OF OVER THREE BILLION DOLLARS, AND ONLY OFFICIAL

BORROWING OF \$600 MILLION WILL KEEP FOREIGN EXCHANGE RESERVES FROM DROPPING BELOW THE CRITICAL LEVEL OF TWO MONTHS' WORTH OF IMPORTS. LOOKING A LITTLE AHEAD, THE GOVERNMENT, FOR THE FIRST TIME SINCE THE COLLAPSE OF THE JUNTA, FEELS ABLE TO FOCUS ON LONGER RANGE PROBLEMS AND GOALS. GREECE'S APPLICATION FOR EARLY FULL MEMBERSHIP IN THE EC (HOWEVER THE EVENTUAL TIMETABLE FOR INTEGRATION TURNS OUT) HAS FOCUSED ATTENTION ON STRUCTURAL DEFECTS OF THE GREEK ECONOMY. NEW MEASURES ARE BEING DEvised TO IDENTIFY AND PROMOTE PROMISING LARGE-SCALE INVESTMENT PROJECTS, AND THE GOG IS DEEPLY IMMERSED IN THE FORMULATION OF A NEW FIVE-YEAR PLAN TO BE PUBLISHED NEXT SPRING, THE FIRST MIDEIUM-RANGE PLANNING GUIDE TO BE DEVELOPED SINCE 1968. DESPITE CARAMANLIS' RECENT WARNING THAT NEXT YEAR WOULD BE A DIFFICULT ONE OF RESTRUCTURING THE ECONOMY AND BUILDING FOR RAPID FUTURE GROWTH, MOST GREEKS BELIEVE THAT THE TREND IS NOW UP AND THAT 1976 WILL BRING FURTHER SIGNIFICANT IMPROVEMENT IN THE ECONOMY. END SUMMARY

1. PRODUCTION AND INVESTMENT - ALTHOUGH CONCLUSIVE FIGURES ARE NOT YET AVAILABLE, THE EMBASSY BELIEVES (IN CONTRACT TO THE RECENT LONDON ECONOMIST ARTICLE) THAT THE GOG IS LIKELY TO ACHIEVE ITS GOAL OF A TWO TO THREE PRECENT REAL GNP Gworth FOR 1975. THE PRIMARY SECTOR IS ONCE AGAIN ENJOYING AN EXCELLENT YEAR DUE TO FAVORABLE PRICES AND WEATHER CONDITIONS; VEGETABLES, FRUITS, OLIVE OIL AND TOBACCO ARE FARING PARTICULARLY WELL. MANUFACTURING OUTPUT SEEMS TO BE ON THE UPSWING AND CONSTRUCTION HAS GREATLY PICKED UP IN COMPARISON TO THE LOW LEVEL OF ACTIVITY IN 1974. IN THE SERVICE SECTOR, THERE ARE INDICATIONS OF IMPROVEMENT IN MOST AREAS, WITH THE TROUBLESOME EXCEPTION OF SHIPPING (9 PERCENT OF GREEK FLAG TONNAGE WAS IDLE IN AUGUST, AND FOREIGN EXCHANGE REMITTANCES ARE DOWN 4 PERCENT FOR THE FIRST EIGHT MONTHS COMPARED TO THE SAME PERIOD IN 1974). TOURISM HAS RESPONDED PARTICULARLY WELL TO THE RELATIVE CALM IN TURKISH-GREEK RELATIONS, WITH ARRIVALS UP 30 PERCENT DURING JANUARY-AUGUST OVER THE SAME PERIOD IN 1974. THE CLIMATE IN THE BUSINESS COMMUNITY IS DEFINITELY MORE OPTIMISTIC, AND ALTHOUGH NO DRAMATIC UPSURGE IN INVESTMENT HAS YET OCCURRED, BANKERS REPORT A GROWING INTEREST IN INVESTMENT PROJECTS. THE SCALISTIRI GROUP HAS JUST ANNOUNCED A \$50 MILLION LIMITED OFFICIAL USE

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EXPANSION OF ITS MAGNESITE FACILITIES, THE FIRST MAJOR INVESTMENT PROJECT BY A GREEK FIRM SINCE THE COLLAPSE OF THE JUNTA (AND ONE WHICH OFFERS PROMISING SALES OPPORTUNITIES TO U.S. EXPORTERS, PROVIDED THAT EXIMBANK FINANCING CAN BE ARRANGED AS CURRENTLY ANTICIPATED - CF ATHENS 7466). CERTAIN DOMESTIC CONDITIONS REMAIN NOT ENTIRELY CONSISTENT WITH AN OPTIMAL CLIMATE FOR PRIVATE FOREIGN INVESTMENT: UNCERTAINTIES OVER THE REVISION OF A NUMBER OF INVESTMENT CONTRACTS SIGNED

DURING THE JUNTA PERIOD AND THE BUREAUCRATIC DELAYS AND CUMBERSOME PROCEDURES INVOLVED IN THE APPLICATION PROCESS HAVE NOT EXACTLY REINFORCED THE GENERALLY POSITIVE PUBLIC POSTURE BY TOP GOG POLICYMAKERS VIS--VIS FOREIGN CAPITAL (CF. PARA 6). THE GOVERNMENT IS, HOWEVER, AWARE OF THESE PROBLEMS AND IS TRYING TO REMEDY THEM, E.G., BY MOVING EXPEDITIOUSLY ON THE SMALL NUMBER OF JUNTA CONTRACTS IN QUESTION, AND BY CENTRALIZING IN THE COORDINATION MINISTRY ADMINISTRATIVE RESPONSIBILITY FOR NEW APPROVALS.

2. INFLATION - IN AUGUST, THE CONSUMER PRICE INDEX STOOD 12.6 PERCENT OVER AUGUST 1974, BUT THE WHOLESALE PRICE INDEX WAS UP ONLY 5 PERCENT OVER THE SAME PERIOD AND ONLY 2 PERCENT SINCE THE START OF THE YEAR - A HEARTENING SIGN FOR THE GREEK CONSUMER AND FURTHER EVIDENCE THAT THE GOG - IN CONTRACT TO OECD PREDICTIONS LAST SPRING - WILL BE SUCCESSFUL IN KEEPING INFLATION BELOW THE 15 PERCENT TARGET. ALTHOUGH A RECENT SURVEY CONDUCTED BY THE FEDERATION OF GREEK INDUSTRIES INDICATES THAT THE BUSINESS COMMUNITY EXPECTS SOME PICK-UP IN THE RATE OF INFLATION DURING THE FOURTH QUARTER, THE EMBASSY CURRENTLY BELIEVES THAT, WITH THE BULK OF 1975 PRICE RISES INDUCED BY INDIRECT TAXATION NOW ALREADY REFLECTED IN THE INDICES, A FULL-YEAR RESULT OF 12-13 PERCENT OR EVEN LESS IS A DISTINCT POSSIBILITY.

3. BALANCE OF PAYMENTS (BOP) - THE BOP HAS NOW REPLACED STAGNATION AS GREECE'S NUMBER ONE ECONOMIC PROBLEM (CF. REF F). SUSTAINED EXPORT GROWTH (UP 20 PERCENT FOR THE FIRST EIGHT MONTHS OF 1975 OVER THE COMPARABLE PERIOD OF 1974) AND A DRAMATIC RISE IN TOURIST RECEIPTS (UP 23 PERCENT) HAVE LED GOG TO LOWER FROM \$700/800 MILLION TO \$600 MILLION ITS ESTIMATE OF THE OFFICIAL BORROWING REQUIREMENT TO MEET THE LIMITED OFFICIAL USE

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BOP GAP. EVEN THIS SLIGHTLY BETTER THAN EXPECTED PERFORMANCE, HOWEVER, COMING AFTER OFFICIAL FOREIGN BORROWING OF \$450 MILLION IN 1973 AND \$500 MILLION IN 1974, HAS SERVED TO UNDERLINE TO TOP GOG POLICYMAKERS THE GRAVITY OF THE BOP SITUATION (CF. REF. B AND ATHENS 7084). BURDENED WITH A COSTLY MILITARY MODERNIZATION PROGRAM AND HIGHER PRICED IMPORTS, PARTICULARLY OIL, GREECE'S 1975 TRADE DEFICIT WILL REACH RECORD LEVELS, PROBABLY IN EXCESS OF THREE BILLION DOLLARS. THE UNDERTAINTY OF CRITICAL INVISIBLE EARNINGS FROM TOURISM, SHIPPING AND EMIGRANT REMITTANCES, PLUS THE GROWING DEBT SERVICE OBLIGATION, TOGETHER CONTRIBUTE TO THE HIGH LEVEL GOG CONCERN OVER MEDIUM-TERM BOP PROSPECTS; THE CONSTRAINTS WHICH BOP PROBLEMS MIGHT IMPOSE ON OVERALL ECONOMIC AND SOCIAL POLICIES HAVE OBVIOUS INTERNAL POLITICAL IMPLICATIONS WHICH ARE WORRISOME TO COORDINATION MINISTER PAPALIGOURAS,

FINANCE MINISTER DEVLETOGLOU, AND OTHER TOP POLICYMAKERS.
THE GOG REGARDS THE RAPID DEVELOPMENT OF EXPORTS AND IMPORT
SUBSTITUTION AS ESSENTIAL TO THE EVENTUAL SOLUTION OF THE
BOP SITUATION, AND THIS OBJECTIVE IS CENTRAL TO THE GOVERNMENT'S
LONG-RANGE PLANNING EFFORT (CF. PARA. 6) MEANWHILE, THE
GOG IS WORKING HARD TO DEVELOP NEW MARKETS FOR GREEK
PRODUCTS, PARTICULARLY IN THE MIDDLE EAST AND EASTERN EUROPE.

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4. FISCAL AND MONETARY POLICY - THE MAJOR FISCAL STIMULATIVE
TOOK THIS YEAR HAS BEEN A PLANNED 40 PERCENT INCREASE IN
THE ALMOST COMPLETELY DEFICIT-FINANCED \$1.1 BILLION PUBLIC
INVESTMENT BUDGET (CF. ATHENS A-104). THE GOVERNMENT IS,
HOWEVER, REPORTEDLY SERIOUSLY CONSIDERING HOLDING UP SOME
OF THESE EXPENDITURES IN ORDER TO AVOID OVER-STIMULATION
OF IMPORT DEMAND - AN ATTITUDE WHICH FURTHER ILLUSTRATES
THE GRAVE CONCERN OVER THE BALANCE OF PAYMENTS SITUATION.FINANCING OF
THE PUBLIC INVESTMENT BUDGET DEFICIT THUS FAR
PROBABLY CONTRIBUTED TO A LARGE (25 PERCENT) INCREASE IN THE
MONEY SUPPLY (MEASURED BETWEEN JULY 1974 AND JULY 1975).
ON THE OTHER HAND, INCREASES IN BANK RESERVE REQUIREMENTS
ILLUSTRATE THE GOG'S DESIRE TO MITIGATE POTENTIAL INFLATIONARY

EFFECTS OF DEFICIT FINANCING. CREDIT POLICY THIS YEAR HAS BEEN AND REMAINS MIXED, RELATIVELY LIBERAL WITH RESPECT TO INVESTMENT IN EXPORT PRODUCTION, LONG-TERM INDUSTRIAL INVESTMENT AND CERTAIN AGRICULTURAL ACTIVITIES, BUT TIGHT FOR "NON-PRODUCTIVE" ACTIVITIES SUCH AS HOUSING AND TRADE.

5. THE DRACHMA - THE RAPID RISE OF THE DOLLAR IN THE LIMITED OFFICIAL USE

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INTERNATIONAL MONEY MARKET HAS MEANT A CONSIDERABLE APPRECIATION OF THE DOLLAR VIS-A-VIS THE DRACHMA, PARTICULARLY SINCE THE DOLLAR'S MID-YEAR REMOVAL FROM THE BASKET OF CURRENCIES USED TO SET THE DRACHMA'S VALUE (SEE ATHENS 7192). SINCE THE MARCH SEVERING OF THE DOLLAR/DRACHMA LINK, THE DOLLAR HAS APPRECIATED 15 PERCENT, A DEVELOPMENT WHICH MAY HAVE SOME ADVERSE REPERCUSSIONS ON U.S. EXPORTS. TRENDS IN PRIVATE BANK DEPOSITS (UP 13 PERCENT FROM JANUARY TO JULY 1975) SEEM TO INDICATED REASONABLE LOCAL CONFIDENCE IN THE STABILITY OF THE DRACHMA.

6. PLANNING FOR THE FUTURE - FOR THE FIRST TIME IN SEVERAL YEARS, AND CERTAINLY SINCE THE COLLAPSE OF THE JUNTA, THE GOVERNMENT SEEMS TO HAVE SHORT-RANGE ECONOMIC PROBLEMS WELL ENOUGH IN HAND TO BEGIN TO LOOK AT THE HORIZON. CERTAINLY THE DECISION TO SEEK EARLY FULL MEMBERSHIP IN THE COMMON MARKET, EVEN THOUGH LARGELY DUE TO POLITICAL CONSIDERATIONS (SEE REF D), HAS FOCUSED ATTENTION ON THE URGENT NEED TO EFFECT STRUCTURAL REFORM IN THE ECONOMY. CARAMANLIS HAS ANNOUNCED THAT THE MINISTRY OF COORDINATION AND PLANNING AND A REVIVIFIED CENTER OF PLANNING AND ECONOMIC RESEARCH (KEPE) ARE IN THE PROCESS OF FORMULATING A NEW FIVE YEAR PLAN FOR 1976-80 (THE FIRST SUCH PLAN SINCE THAT FOR 1968-72), WHICH WILL AIM AT ELIMINATING STRUCTURAL DEFECTS. CARAMANLIS AND OTHER GOG SPOKESMEN FREQUENTLY STRESS THE CRITICAL IMPORTANCE OF THE RAPID DEVELOPMENT OF THE EXPORT SECTOR AND OF DOMESTIC ENERGY RESOURCES, PARTICULARLY LOCAL PETROEUM AND LIGNITE DEPOSITS. THEY HAVE ACKNOWLEDGED THE ESSENTIAL ROLE WHICH FOREIGN CAPITAL, TECHNOLOGY AND MANAGEMENT TECHNIQUES CAN PLAY IN THIS RESTRUCTURING PROCESS. MORE IMMEDIATE PROGRAMS TO EFFECT ECONOMIC DEVELOPMENT INCLUDE THE CREATION OF A CONSORTIUM OF THE NATIONAL BANK, THE HELLENIC BANK FOR INDUSTRIAL DEVELOPMENT (ETVA), AND THE NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT (NIBID) TO IDENTIFY SIGNIFICANT PROJECTS, FUND FEASIBILITY STUDIES, AND GENERALLY PROMOTE AND CHANNEL BOTH DOMESTIC AND FOREIGN INVESTMENT CAPITAL (SEPTEL FOLLOWS ON THIS SUBJECT). THE GOG HAS ALSO ANNOUNCED A REGIONAL DEVELOPMENT PROGRAM WHICH WILL BE IMPLEMENTED WITHIN THE FRAMEWORK OF THE OVERALL FIVE-YEAR PLAN. SPECIAL TAX AND FINANCING INCENTIVES WILL BE USED

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TO PROMOTE INVESTMENT, PARTICULARLY IN BORDER AREAS.

7. INTERNATIONAL ECONOMIC RELATIONS - CARAMANLIS CONTINUES TO CAMPAIGN FOR INTERNATIONAL SUPPORT FOR GREECE'S APPLICATION FOR EARLY FULL MEMBERSHIP IN THE EUROPEAN COMMUNITY, MOST RECENTLY DURING FRENCH PRESIDENT GISCARD D'ESTAING'S VISIT TO GREECE AND HIS OWN TRIP TO ROME. BOTH THE FRENCH AND ITALIAN GOVERNMENTS PUBLICLY PLEDGED SUPPORT FOR GREECE'S CANDIDACY, BUT WITHOUT GOING INTO DETAILS ON TIMI G AND CONDITIONS. (GREEK OFFICIALS WOULD LIKE TO ACHIEVE FULL MEMBERSHIP BY 1978 OR 1979 WITH A SUBSEQUENT FIVE-YEAR TRANSITIONAL PERIOD. THE MANY THORNY PROBLEMS WHICH MUST BE IRONED OUT - ESPECIALLY AGRICULTURAL HARMONIZATION AND THE ADJUSTMENT OF THE GREEK SECONDARY SECTOR - MAKE THE GREEK SCENARIO LOOK OPTIMISTIC - SEE REF. D). OFFICIAL AND PRIVATE SECTOR REACTIONS TO THE COMING INTEGRATION GENERALLY RANGE FROM FAVORABLE TO EUPHORIC. ON ANOTHER FRONT, THE GOG CONTINUES ITS DIALOGUE WITH ITS NORTHERN NEIGHBORS - CARAMANLIS RECENTLY CALLED FOR A BALKAN CONFERENCE OF COORDINATION MINISTERS, AND MINISTER OF COORDINATION PAPALIGOURAS GAVE ASSURANCES IN A PRAVDA INTERVIEW THAT GREECE'S EC TIES DID NOT PRECLUDE CLOSE ECONOMIC RELATIONS WITH THE SOCIALIST BLOC.

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